

Michigan Catastrophic Claims Association

Financial Statements and Supplemental Schedules

(Statutory Basis of Accounting)

June 30, 2005 and 2004

Michigan Catastrophic Claims Association

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June 30, 2005 and 2004

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Report of Independent Auditors

To the Board of Directors of the
Michigan Catastrophic Claims Association

We have audited the accompanying statutory statements of admitted assets, liabilities and accumulated deficit of the Michigan Catastrophic Claims Association (the "Association") as of June 30, 2005 and 2004, and the related statutory statements of operations and accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the Association prepared these financial statements using accounting practices prescribed or permitted by the State of Michigan Office of Financial and Insurance Services, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Association as of June 30, 2005 and 2004, or the results of its operations or its cash flows for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and accumulated deficit of the Association as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

As discussed in Note 1 to the financial statements, the Association received permission from the State of Michigan Office of Financial and Insurance Services to discount its liabilities for loss and loss adjustment expenses. This practice differs from prescribed statutory accounting practices. As of June 30, 2005, this permitted practice reduced the Association's accumulated deficit by \$39,666,960,000 in comparison to what it would have been had the prescribed statutory accounting practice been followed.

Pricewaterhouse Coopers LLP

November 8, 2005

Michigan Catastrophic Claims Association
Statutory Statements of Admitted Assets, Liabilities and Accumulated Deficit
June 30, 2005 and 2004

	2005	2004
Admitted Assets		
Cash and invested assets		
Bonds, at amortized cost	\$ 2,947,343,000	\$ 2,600,254,000
Common stocks, at fair value (cost of \$4,656,976,000 in 2005 and \$4,268,254,000 in 2004)	5,380,534,000	4,844,509,000
Cash and short-term investments	119,012,000	88,932,000
	<u>8,446,889,000</u>	<u>7,533,695,000</u>
Premiums and other receivables	3,819,000	383,000
Accrued investment income	34,972,000	27,790,000
Other	288,000	168,000
	<u>\$ 8,485,968,000</u>	<u>\$ 7,562,036,000</u>
Liabilities and Accumulated Deficit		
Liabilities		
Losses and loss adjustment expenses, less discount of \$39,666,960,000 in 2005 and \$31,731,067,000 in 2004	\$10,341,160,000	\$ 9,100,790,000
Unearned premium assessments	229,000,000	180,961,000
Premium refunds payable	3,202,000	1,868,000
Accrued expenses	2,257,000	1,997,000
Total liabilities	<u>10,575,619,000</u>	<u>9,285,616,000</u>
Accumulated Deficit	<u>(2,089,651,000)</u>	<u>(1,723,580,000)</u>
	<u>\$ 8,485,968,000</u>	<u>\$ 7,562,036,000</u>

The accompanying notes are an integral part of these statutory financial statements.

Michigan Catastrophic Claims Association
Statutory Statements of Operations and Accumulated Deficit
Years Ended June 30, 2005 and 2004

	2005	2004
Premium assessments	\$ 855,633,000	\$ 660,147,000
Losses and loss adjustment expenses incurred, net of increase (decrease) in discount of \$7,935,893,000 in 2005 and (\$3,856,687,000) in 2004	1,841,740,000	729,481,000
Decrease in premium deficiency reserve	-	(35,329,000)
Other underwriting expenses	877,000	895,000
	<u>1,842,617,000</u>	<u>695,047,000</u>
Underwriting loss	(986,984,000)	(34,900,000)
Investment income, net of expenses	305,585,000	244,051,000
Net realized gains on sales of investments	171,183,000	68,267,000
Other income	35,000	-
Net (loss) income	<u>(510,181,000)</u>	<u>277,418,000</u>
Accumulated deficit, beginning of year	(1,723,580,000)	(2,255,529,000)
Increase in unrealized investments gains	149,958,000	254,892,000
Increase in nonadmitted assets	(5,848,000)	(361,000)
Accumulated deficit, end of year	<u><u>\$(2,089,651,000)</u></u>	<u><u>\$(1,723,580,000)</u></u>

The accompanying notes are an integral part of these statutory financial statements.

Michigan Catastrophic Claims Association
Statutory Statements of Cash Flows
Years Ended June 30, 2005 and 2004

	2005	2004
Premiums collected	\$ 895,712,000	\$ 712,536,000
Losses and loss adjustment expenses paid	(601,311,000)	(542,186,000)
Underwriting expenses paid	(856,000)	(886,000)
Cash provided by underwriting	293,545,000	169,464,000
Investment income received, net of expenses	303,265,000	277,842,000
Cash from operations	596,810,000	447,306,000
Proceeds from investments sold, matured or repaid		
Bonds	12,990,907,000	14,473,791,000
Stocks	2,938,365,000	604,410,000
Total investment proceeds	15,929,272,000	15,078,201,000
Cost of investments acquired		
Bonds	(13,281,673,000)	(13,807,627,000)
Stocks	(3,214,116,000)	(2,100,761,000)
Total investments acquired	(16,495,789,000)	(15,908,388,000)
Net cash used in investments	(566,517,000)	(830,187,000)
Cash from financing and miscellaneous sources		
Other applications	(213,000)	(136,000)
Net cash used in financing and miscellaneous sources	(213,000)	(136,000)
Net increase (decrease) in cash and short-term investments	30,080,000	(383,017,000)
Cash and short-term investments		
Beginning of year	88,932,000	471,949,000
End of year	\$ 119,012,000	\$ 88,932,000

The accompanying notes are an integral part of these statutory financial statements.

Michigan Catastrophic Claims Association
Notes to Statutory Financial Statements
June 30, 2005 and 2004

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

The Michigan Catastrophic Claims Association (the "Association") assesses each member engaged in writing insurance coverages under policies of insurance issued to residents of the State of Michigan, which provide the coverages required (1) for motor vehicles under Section 3101 of the Michigan Insurance Code and (2) for motorcycles under Section 3103 of the Michigan Insurance Code. These assessments provide funds for the indemnification of those members against ultimate loss sustained under statutory required personal protection insurance coverages in excess of the applicable amount set forth in section 3104(2) of the Michigan Insurance Code. Beginning July 1, 2002, as the result of the enactment of Michigan Public Act 3 of 2001, the member retention level increased from \$250,000 to \$300,000 and will then gradually increase on an incremental basis over a ten-year period until a \$500,000 level is reached on July 1, 2011. Thereafter, beginning July 1, 2013, the retention will be increased each odd numbered year by 6% or the consumer price index, whichever is less. For policies issued or renewed July 1, 2004 through June 30, 2005 the member retention level is \$350,000. The Association's future operations and form are dependent upon the continuation of its enabling state legislation.

Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the basis of statutory accounting practices as prescribed or permitted by the State of Michigan Office of Financial and Insurance Services ("OFIS"). Prescribed statutory accounting practices include the National Association of Insurance Commissioners' ("NAIC") statements of statutory accounting principles, as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The principal differences between statutory accounting practices and generally accepted accounting principles are (a) bonds are reported principally at amortized cost rather than reporting certain bonds at fair value as required by Statement of Financial Accounting Standards ("SFAS") No. 115, (b) the statement of cash flows has been prepared in accordance with NAIC guidelines as opposed to SFAS No. 95, (c) comprehensive income is not required and, therefore, is not presented in the accompanying financial statements in accordance with SFAS No. 130, and (d) certain assets designated as "nonadmitted assets" (principally overdue receivable balances) are excluded from the balance sheet by direct charges to unassigned surplus.

The differences between statutory accounting practices and generally accepted accounting principles have not been determined.

Permitted Practice

The OFIS has permitted the Association a certain practice which differs from those found in the National Association of Insurance Commissioners' (the "NAIC") *Accounting Practices and Procedures Manual – Effective January 1, 2001* ("NAIC SAP") NAIC SAP. Specifically, the Association is permitted to discount its losses and loss adjustment expenses ("Losses and LAE").

Michigan Catastrophic Claims Association
Notes to Statutory Financial Statements
June 30, 2005 and 2004

A reconciliation of the Association's net loss and accumulated deficit between NAIC SAP and practices permitted by OFIS is shown below:

	2005	2004
Net (loss) income, State of Michigan basis	\$ (510,181,000)	\$ 277,418,000
State permitted practice		
(Increase) decrease in discount on losses and LAE	<u>(7,935,893,000)</u>	<u>3,856,687,000</u>
Net (loss) income NAIC SAP	<u>\$ (8,446,074,000)</u>	<u>\$ 4,134,105,000</u>
Statutory deficit, State of Michigan basis	\$ (2,089,651,000)	\$ (1,723,580,000)
State permitted practice		
Discounting of losses and LAE	<u>(39,666,960,000)</u>	<u>(31,731,067,000)</u>
Statutory deficit, NAIC SAP	<u>\$ (41,756,611,000)</u>	<u>\$ (33,454,647,000)</u>

Investments

Short-term investments include all investments with maturities, at the time of acquisition, of one year or less and are stated at cost which approximates fair value.

Bonds are generally stated at amortized cost. Stocks are stated at fair value as determined by the Securities Valuation Office (SVO) of the NAIC. For issues that were not evaluated by the SVO, fair values were estimated on prices received from an independent pricing source and market comparables.

Realized gains or losses on sale, maturity or other-than-temporary impairments of investments are determined on the basis of specific costs of the investments and credited or charged to operations. Unrealized gains or losses resulting from valuations of stocks are credited or charged directly to surplus.

Michigan Catastrophic Claims Association
Notes to Statutory Financial Statements
June 30, 2005 and 2004

Losses and Loss Adjustment Expense

The Association actuarially computes the provision for unpaid losses and loss adjustment expenses using the present value of disbursements expected to be made in the ultimate settlement of the claims reported. The Association bases the provision for unpaid losses and loss adjustment expenses upon information reported to it by its member insurers with respect to reported claims, giving consideration with respect to each reported claim to past payments of the member company and estimated future payments of personal injury protection insurance benefits, with the future payments (initially estimated at current cost levels) then being adjusted to their expected future levels in light of selected claim cost inflation projections; the resultant estimates are adjusted, based upon actuarial tables that incorporate actual emerged Association mortality and closure experience, to reflect the probabilities of each claimant surviving to incur such costs. The Association also includes a provision for incurred but not reported losses based upon the foregoing data. The methods of estimating unpaid losses and loss adjustment expenses are continually reviewed and updated, and any adjustments resulting there from are reflected in the current operations. Management believes that the provision for unpaid losses and loss adjustment expenses is adequate; however, inasmuch as these estimated amounts are based on member-reported information, present value, investment yield and mortality assumptions (determined by actuarial tables that incorporate actual emerged Association mortality and closure experience) no assurance can be given that the ultimate settlement of these liabilities may not be greater or less than such estimates.

The payment of losses and loss adjustment expenses is necessary over a long period of time; therefore, the Association has elected an alternative accounting policy to discount its unpaid losses and loss adjustment expenses. The actuarially determined discount rate was 5.00% to 7.00% for 2005 and 5.25% to 6.75% for 2004.

A significant actuarial assumption used in the foregoing provisions is that the investment return rate is equal to the discount rate.

Both short-term and long-term inflation and investment assumptions are formulated. For 2005, the short-term assumptions are for the period July 1, 2005 to June 30, 2013 and the long-term assumptions are for the period July 1, 2013 and after. For 2004, the short-term assumptions are for the period July 1, 2004 to June 30, 2010 and the long-term assumptions are for the period July 1, 2010 and after.

Michigan Catastrophic Claims Association
Notes to Statutory Financial Statements
June 30, 2005 and 2004

The inflation and investment assumptions used are as follows at June 30:

Time Period	2005		
	Care Inflation (1)	Investment Return (2)	Differential (2)-(1)
07/01/2005-06/30/2006	4.50%	5.00%	0.50%
07/01/2006-06/30/2007	4.50%	5.25%	0.75%
07/01/2007-06/30/2008	4.50%	5.50%	1.00%
07/01/2008-06/30/2009	4.50%	5.75%	1.25%
07/01/2009-06/30/2010	4.50%	6.00%	1.50%
07/01/2010-06/30/2011	4.50%	6.25%	1.75%
07/01/2011-06/30/2012	4.50%	6.50%	2.00%
07/01/2012-06/30/2013	4.75%	6.75%	2.00%
07/01/13 +	5.00%	7.00%	2.00%

Time Period	2004		
	Care Inflation (1)	Investment Return (2)	Differential (2)-(1)
07/01/2004-06/30/2005	5.00%	5.25%	0.25%
07/01/2005-06/30/2006	5.00%	5.50%	0.50%
07/01/2006-06/30/2007	5.00%	5.75%	0.75%
07/01/2007-06/30/2008	5.00%	6.00%	1.00%
07/01/2008-06/30/2009	5.00%	6.25%	1.25%
07/01/2009-06/30/2010	5.00%	6.50%	1.50%
07/01/2010+	5.00%	6.75%	1.75%

The changes in the (1) short-term assumptions from 2004 to 2005 reflect the current economic environment of lower investment returns and growth in claim costs; and (2) long-term assumptions from 2004 to 2005 reflects a change in the mix of investments to a greater allocation in equities and expected higher returns. The effects of the decrease in short-term claim cost inflation, decrease in short-term investment return assumptions, and increase in long-term investment return assumptions caused the liability for losses and loss adjustment expenses to decrease by approximately \$199,600,000. The long-term assumptions result in a long-term positive differential (i.e. the difference between assumed investment return and assumed rate of increase in care costs) of 2.00% in 2005 and 1.75% in 2004.

Michigan Catastrophic Claims Association

Notes to Statutory Financial Statements

June 30, 2005 and 2004

Revenue Recognition

Member companies have the option of paying premium assessments on a monthly or annual basis.

Premium assessments are levied on a fiscal year June 30 basis (encompassing the period July 1 through June 30) and the basis for calculating each member's annual premium assessment is the member's total written car years of insurance providing the security required by Sections 500.3101 and 500.3103 of the Michigan Insurance Code. Beginning July 1, 2003, as the result of the enactment of Michigan Public Act 662 of 2002, the assessment for vehicles defined as historic vehicles is 20% of the premium assessment charged per car. An historic vehicle means a vehicle that is a registered historic vehicle under Section 803A or 803P of the Michigan Vehicle Code, 1949 PA 300 MCL 257.803A and 257.803P.

For each assessment period, a preliminary premium assessment is levied based on a member's total written car years during the immediately preceding assessment period. The preliminary assessment is assessed at the end of each month for member companies electing to pay in equal monthly installments and at the end of August for member companies electing to pay in full.

Subsequent to the Association's fiscal year and as soon as is practicable after the end of each assessment period for which the premium is applicable, a final premium assessment is levied for the period just completed based on actual written car years. Adjustments to the estimated preliminary assessments are recognized in the year the assessment adjustment is billed. This is due to the Association being unable to estimate members' individual or direct written car years.

Assessments are earned and recognized as premium assessments ratably over the premium assessment period. Unearned premium assessments represent the portion of premiums written which is applicable to the unexpired portion of the assessment, calculated by the application of monthly pro rata fractions.

Premium deficiency reserves are required for the amount of anticipated losses, loss adjustment expenses and other costs that have not previously been expensed in excess of the recorded unearned premium reserve on existing coverages. No premium deficiency reserve was recorded on June 30, 2005 and June 30, 2004.

The Association's revenues are dependent upon assessments, under applicable statute, to member companies operating in the State of Michigan.

Income Tax

The Association has received a determination letter from the Internal Revenue Service indicating that the Association is exempt from income taxes under Internal Revenue Code Section 501(c)(6).

Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with prescribed or permitted statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Michigan Catastrophic Claims Association
Notes to Statutory Financial Statements
June 30, 2005 and 2004

Assessment of Losses and Deficits

The Association is a nonprofit organization and under the applicable statute all losses and deficits are assessable to member companies. Furthermore, excesses or deficiencies from previous periods may be adjusted in subsequent premium assessments to member companies. Any such excesses or deficiencies may be fully adjusted in a single assessment period or may be adjusted over several periods ratably or in such proportion as the Association's Board of Directors may deem advisable. This recognizes the difficulty and uncertainty in predicting the projected claim payments for long-term claims in which medical benefits are unlimited. The uncertainty in the estimates of the liabilities is primarily due to difficulty in predicting (a) life expectancies, (b) medical cost inflation, (c) investment returns, and (d) claim frequency.

2. Investment in Bonds and Common Stocks

The estimated fair value of bonds is based on information published by the SVO, market quotations and other sources. The amortized cost, gross unrealized gains, gross unrealized losses, estimated fair value and statement value of bonds and common stocks are as follows at June 30:

	2005				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Statement Value
Bonds					
U.S. governments	\$ 1,639,276,000	\$ 24,156,000	\$ 9,591,000	\$ 1,653,841,000	\$ 1,639,276,000
Special revenue	557,911,000	3,488,000	3,292,000	558,107,000	557,911,000
Public utilities	22,063,000	3,139,000	-	25,202,000	22,055,000
Industrial and miscellaneous	728,103,000	41,467,000	3,382,000	766,188,000	728,101,000
Total bonds	2,947,353,000	72,250,000	16,265,000	3,003,338,000	2,947,343,000
Common stocks	4,656,976,000	733,180,000	9,622,000	5,380,534,000	5,380,534,000
Total investments	<u>\$ 7,604,329,000</u>	<u>\$ 805,430,000</u>	<u>\$ 25,887,000</u>	<u>\$ 8,383,872,000</u>	<u>\$ 8,327,877,000</u>
	2004				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Statement Value
Bonds					
U.S. governments	\$ 1,560,967,000	\$ 21,069,000	\$ 8,574,000	\$ 1,573,462,000	\$ 1,560,967,000
Political subdivisions	559,000	-	9,000	550,000	559,000
Special revenue	403,204,000	8,743,000	2,085,000	409,862,000	403,204,000
Public utilities	43,475,000	2,641,000	479,000	45,637,000	42,887,000
Industrial and miscellaneous	593,011,000	29,128,000	4,692,000	617,447,000	592,637,000
Total bonds	2,601,216,000	61,581,000	15,839,000	2,646,958,000	2,600,254,000
Common stocks	4,268,254,000	578,617,000	2,362,000	4,844,509,000	4,844,509,000
Total investments	<u>\$ 6,869,470,000</u>	<u>\$ 640,198,000</u>	<u>\$ 18,201,000</u>	<u>\$ 7,491,467,000</u>	<u>\$ 7,444,763,000</u>

For bonds, the difference at June 30, 2005 between amortized cost and statement value of \$10,000 relates to bonds with an amortized cost of \$13,036,000 and statement value of \$13,026,000, that based on applicable NAIC designations, should be reflected at the lower of amortized cost or fair value.

Michigan Catastrophic Claims Association
Notes to Statutory Financial Statements
June 30, 2005 and 2004

Common stocks include shares in mutual funds that invest primarily in fixed income securities with maturities of 1 to 30 years. The cost and estimated fair value for shares of mutual funds were \$2,627,400,000 and \$2,628,103,000 at June 30, 2005 and \$2,448,854,000 and \$2,459,842,000 at June 30, 2004, respectively.

The estimated fair value and gross unrealized losses, by length of time that individual securities have been in a continuous unrealized loss position are as follows at June 30, 2005 and 2004, respectively:

2005						
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Bonds						
U.S. government	\$ 551,662,000	\$ 7,864,000	\$ 191,635,000	\$ 1,727,000	\$ 743,297,000	\$ 9,591,000
Special revenue	224,947,000	1,871,000	82,384,000	1,421,000	307,331,000	3,292,000
Industrial and miscellaneous	71,417,000	1,597,000	77,734,000	1,785,000	149,151,000	3,382,000
Subtotal	848,026,000	11,332,000	351,753,000	4,933,000	1,199,779,000	16,265,000
Common stocks	51,149,000	5,121,000	23,752,000	4,501,000	74,901,000	9,622,000
Total investments	\$ 899,175,000	\$ 16,453,000	\$ 375,505,000	\$ 9,434,000	\$ 1,274,680,000	\$ 25,887,000

2004						
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Bonds						
U.S. government	\$ 441,958,000	\$ 6,514,000	\$ 50,692,000	\$ 2,059,000	\$ 492,650,000	\$ 8,573,000
Political subdivisions	550,000	9,000	-	-	550,000	9,000
Special revenue	121,491,000	1,626,000	51,076,000	460,000	172,567,000	2,086,000
Public utilities	-	-	11,847,000	479,000	11,847,000	479,000
Industrial and miscellaneous	122,571,000	3,165,000	64,080,000	1,527,000	186,651,000	4,692,000
Subtotal	686,570,000	11,314,000	177,695,000	4,525,000	864,265,000	15,839,000
Common stocks	17,049,000	1,499,000	12,896,000	863,000	29,945,000	2,362,000
Total investments	\$ 703,619,000	\$ 12,813,000	\$ 190,591,000	\$ 5,388,000	\$ 894,210,000	\$ 18,201,000

Michigan Catastrophic Claims Association
Notes to Statutory Financial Statements
June 30, 2005 and 2004

Realized gains and losses are determined on a specific identification basis and are credited or charged to income. Unrealized capital gains and losses resulting from the valuation of investments at fair value are credited or charged directly to surplus. A decline in the market value of any investment security below cost that is deemed to be other than temporary results in a reduction in the carrying amount to fair value. Fair value is generally the market value at the balance sheet date. The impairment is charged to earnings and a new cost basis is established. Factors considered in evaluating whether a decline in value is other than temporary are: (1) whether the decline is substantial, (2) the Association's ability and intent to retain the investment for a period of time sufficient to allow for anticipated recovery in value, (3) the duration and extent to which market value has been less than cost, (4) the financial condition and near term prospects of the issuer, and (5) the NAIC designation. Based on this review, the amount of other than temporary losses that were reclassified from an unrealized loss to a realized loss were \$1,119,000 in 2005 and \$5,294,000 in 2004.

The amortized cost and estimated fair value of bonds at June 30, 2005, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 219,417,000	\$ 219,156,000
Due after one year through five years	835,338,000	832,014,000
Due after five years through ten years	323,291,000	335,763,000
Due after ten years	946,913,000	994,160,000
Asset-backed securities	518,278,000	518,031,000
Mortgage-backed securities	104,106,000	104,214,000
	<u>\$ 2,947,343,000</u>	<u>\$ 3,003,338,000</u>

Proceeds from sales of investments in bonds and common stocks were \$15,393,708,000 in 2005 and \$13,997,973,000 in 2004 of which gross realized gains and losses were \$209,209,000 and \$36,907,000 in 2005 and \$160,116,000 and \$91,849,000 in 2004, respectively.

	2005	2004
Investment income		
Interest		
Fixed maturities	\$ 102,377,000	\$ 130,056,000
Short-term investments	11,164,000	6,780,000
Dividends on common stock	199,442,000	114,189,000
Other	1,579,000	1,146,000
	<u>314,562,000</u>	<u>252,171,000</u>
Gross investment income	314,562,000	252,171,000
Investment expenses	8,977,000	8,120,000
	<u>\$ 305,585,000</u>	<u>\$ 244,051,000</u>
Net investment income	\$ 305,585,000	\$ 244,051,000

Michigan Catastrophic Claims Association
Notes to Statutory Financial Statements
June 30, 2005 and 2004

The Association participates in a custodial bank securities lending program, whereby securities have been lent to various brokers. The collateral provided as security is required, at the inception of the loan, to equal at least 102% of the market value of the loaned securities plus accrued interest. The loaned securities and collateral are required to be marked to market on a daily basis; and if the market value of the collateral is less than the required value; additional collateral must be posted subject to the custodian's deminimis rule for maintenance margins. The total amount of securities to be lent cannot exceed 10% of the Association's total portfolio. The market value of securities lent and the market value of collateral provided were \$820,947,000 and \$839,089,000 as of June 30, 2005 and \$627,640,000 and \$638,561,000 as of June 30, 2004, respectively.

3. Fair Value of Financial Information

The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments for which it is practicable to estimate that value:

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds	\$ 2,947,343,000	\$ 3,003,338,000	\$ 2,600,254,000	\$ 2,646,958,000
Common stocks	5,380,534,000	5,380,534,000	4,844,509,000	4,844,509,000
Cash and short term investments	119,012,000	119,012,000	88,932,000	88,932,000
Premiums and other receivables	3,819,000	3,819,000	383,000	383,000
Accrued investment income	34,972,000	34,972,000	27,790,000	27,790,000

Bonds and Stocks

Fair values were determined by the SVO. For issues that were not evaluated by the SVO, fair values were estimated based on prices received from an independent pricing source and market comparables.

Cash and Short-Term Investments, Premiums Receivable and Accrued Investment Income

The carrying amount of these assets, premiums receivable and accrued investment income approximate their fair value.

Michigan Catastrophic Claims Association
Notes to Statutory Financial Statements
June 30, 2005 and 2004

4. Liability for Losses and Loss Adjustment Expenses

Activity in the discounted liability for losses and loss adjustment expenses is summarized as follows:

	2005	2004
Net balance, beginning of year	<u>\$ 9,100,790,000</u>	<u>\$ 8,913,527,000</u>
Incurred related to		
Current year	827,675,000	717,460,000
Prior years	<u>1,014,065,000</u>	<u>12,021,000</u>
Total incurred	<u>1,841,740,000</u>	<u>729,481,000</u>
Paid related to		
Current year	3,565,000	5,965,000
Prior years	<u>597,805,000</u>	<u>536,253,000</u>
Total paid	<u>601,370,000</u>	<u>542,218,000</u>
Net balance, end of year	<u>\$10,341,160,000</u>	<u>\$ 9,100,790,000</u>

Each year a re-estimation of unpaid losses and loss adjustment expenses is made based on an ongoing analysis of many factors, including (1) recent loss development trends, (2) continued review of individual claims as additional information is received, (3) frequency and severity trends, and (4) economic assumptions for investment returns and claim cost inflation. In addition refinements in (1) the underlying actuarial methodology and (2) the mortality and claim closure model, are done as warranted.

Unfavorable development relating to prior years incurred in both 2005 and 2004.

For 2005, unfavorable development was primarily the result of (1) adverse development in loss reserves largely due to increases in annual cost projections on existing claims and (2) a decrease in short-term investment return assumptions. This unfavorable development was partially offset by (1) a decrease in short-term claim cost inflation assumptions and (2) an increase in long-term investment return assumptions. The short-term assumptions (July 1, 2005 to June 30, 2013) were revised to better reflect the current economic environment of lower investment returns and growth in medical cost trends. The long-term assumptions (July 1, 2013 and after) were revised to reflect a change in the mix of investments to a greater allocation in equities and expected higher returns. The effects of the decrease in short-term claim cost inflation, decrease in short-term investment return assumptions, and increase in long-term investment return assumptions were to decrease incurred losses and loss adjustment expense related to prior years by \$199,600,000.

Michigan Catastrophic Claims Association
Notes to Statutory Financial Statements
June 30, 2005 and 2004

For 2004, unfavorable development was primarily the result of (1) adverse development in loss reserves largely due to increases in annual cost projections on existing claims and (2) a decrease in short-term investment return assumptions. This unfavorable development was significantly offset by (1) a decrease in short-term claim cost inflation assumptions and (2) changes in the mortality and claim closure model. The short-term assumptions (July 1, 2004 to June 30, 2010) were revised to better reflect the current economic environment of lower investment returns and growth in medical cost trends. The mortality and claim closure model was updated to better match the actual results of the Association. The effects of the decrease in short-term claim cost inflation and investment return assumptions and changes in the mortality and claim closure model were to decrease incurred losses and loss adjustment expense related to prior years by \$169,800,000 and \$893,300,000 respectively.

5. Employee Retirement Plan

The Association, as an employer, participates in the Benefits Connection Group Pension Plan. Substantially all of the Association's employees are covered by this non-contributory qualified defined benefit pension plan. Benefits are based on years of service and the employee's compensation during the last ten years of employment.

A summary of assets, obligations and assumptions of the Association's pension plan are as follows at June 30, 2005 and 2004:

	Pension Benefits	
	2005	2004
Benefit obligation at year end	\$ 1,265,000	\$ 932,000
Fair value of plan assets at year end	903,000	755,000
Underfunded status of plan	<u>\$ 362,000</u>	<u>\$ 177,000</u>
Accrued benefit cost recognized in the statement of admitted assets, liabilities and accumulated deficit	<u>\$ -</u>	<u>\$ -</u>
Weighted-average assumptions as of June 30		
Discount rate	5.25%	6.50%
Expected return on plan assets	8.50%	8.50%
Rate of compensation increase	3.00%	3.75%
	Pension Benefits	
	2005	2004
Benefit cost	\$ 357,000	\$ 73,000
Employer contributions	87,000	69,000
Benefits paid	24,000	19,000

Michigan Catastrophic Claims Association
Notes to Statutory Financial Statements
June 30, 2005 and 2004

6. Litigation and Claims

Various legal actions and other claims are pending or may be instituted or asserted in the future against the Association. Some of these matters involve or may involve claims in large amounts or other relief which, if granted, would require very significant expenditures. Management believes that all liabilities on pending legal actions have been adequately included in its established loss reserves.

Litigation is subject to many uncertainties, the outcome of individual litigated matters is not predictable with assurance and it is reasonably possible that some of the foregoing matters could be decided unfavorably to the Association. Although the amount of liability at June 30, 2005, with respect to these matters cannot be ascertained, management believes that any resulting liability should not materially affect the financial position or results of operations of the Association.

7. Accumulated Deficit

The portion of accumulated deficit represented by or reduced by each item is as follows as of June 30, 2005:

	2005	2004
Net unrealized gains	\$ 725,813,000	\$ 575,855,000
Nonadmitted asset		
Premiums receivable	7,064,000	1,193,000
Furniture and equipment	53,000	47,000
Prepaid expenses	19,000	48,000

Supplemental Financial Information

**Report of Independent Auditors
on Accompanying Information**

To the Board of Directors of the
Michigan Catastrophic Claims Association

The report on our audit of the basic statutory financial statements (the “financial statements”) of the Michigan Catastrophic Claims Association (the “Association”) as of June 30, 2005, and for the year then ended, is presented on pages one and two of this document. That audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplemental Summary Investment Schedule and Supplemental Investment Risks Interrogatories of the Association as of June 30, 2005, and for the year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements. The effects on the Supplemental Summary Investment Schedule and Supplemental Investment Risks Interrogatories of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the Supplemental Summary Investment Schedule and Supplemental Investment Risks Interrogatories do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Association as of June 30, 2005, or for the year then ended. The Supplemental Summary Investment Schedule and Supplemental Investment Risks Interrogatories have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

November 8, 2005

Michigan Catastrophic Claims Association
Supplemental Summary Investment Schedule
June 30, 2005
(Prepared on a Statutory Basis of Accounting)

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	Percent	Amount	Percent
1. Bonds				
1.1 U.S. treasury securities	\$ 880,555,000	10.425%	\$ 880,555,000	10.425%
1.2 U.S. Government agency obligations				
1.21 Issued by U.S. government agencies	259,127,000	3.068%	259,127,000	3.068%
1.22 Issued by U.S. government-sponsored agencies	-	0.000%	-	0.000%
1.3 Foreign government (including Canada, excluding mortgage-backed securities)	-	0.000%	-	0.000%
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.				
1.41 U.S. states and territories general obligations	-	0.000%	-	0.000%
1.42 Political subdivisions of U.S. states, territories and possessions general obligations	-	0.000%	-	0.000%
1.43 Revenue and assessment obligations	6,306,000	0.075%	6,306,000	0.075%
1.44 Industrial development and similar obligations	-	0.000%	-	0.000%
1.5 Mortgage-backed securities (includes residential and commercial MBS)				
1.51 Pass-through securities				
1.511 Guaranteed by GNMA	303,117,000	3.589%	303,117,000	3.589%
1.512 Issued by FNMA and FHLMC	694,717,000	8.225%	694,717,000	8.225%
1.513 Other pass-through securities	-	0.000%	-	0.000%
1.52 Other mortgage-backed securities				
1.521 Issued by FNMA, FHLMC or GNMA	45,384,000	0.537%	45,384,000	0.537%
1.522 Other mortgage-backed securities collateralized by MBS issued or guaranteed by FNMA, FHLMC or GNMA	86,962,000	1.030%	86,962,000	1.030%
1.523 All other mortgage-backed securities	-	0.000%	-	0.000%
2. Other debt securities (excluding short-term)	-	0.000%	-	0.000%
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	671,185,000	7.946%	671,175,000	7.946%
2.2 Unaffiliated foreign securities	-	0.000%	-	0.000%
2.3 Affiliated securities	-	0.000%	-	0.000%
3. Equity interests				
3.1 Investments in mutual funds	-	0.000%	-	0.000%
3.2 Preferred stocks	-	0.000%	-	0.000%
3.21 Affiliated	-	0.000%	-	0.000%
3.22 Unaffiliated	-	0.000%	-	0.000%
3.3 Publicly traded equity securities (excluding preferred stocks)				
3.31 Affiliated	-	0.000%	-	0.000%
3.32 Unaffiliated	5,380,534,000	63.698%	5,380,534,000	63.698%
3.4 Other equity securities				
3.41 Affiliated	-	0.000%	-	0.000%
3.42 Unaffiliated	-	0.000%	-	0.000%
3.5 Tangible personal property under leases				
3.51 Affiliated	-	0.000%	-	0.000%
3.52 Unaffiliated	-	0.000%	-	0.000%
4. Mortgage loans				
4.1 Construction and land development	-	0.000%	-	0.000%
4.2 Agricultural	-	0.000%	-	0.000%
4.3 Single family residential properties	-	0.000%	-	0.000%
4.4 Multifamily residential properties	-	0.000%	-	0.000%
4.5 Commercial loans	-	0.000%	-	0.000%
5. Real estate investments				
5.1 Property occupied by the company	-	0.000%	-	0.000%
5.2 Property held for production of income	-	0.000%	-	0.000%
5.3 Property held for sale	-	0.000%	-	0.000%
6. Policy loans	-	0.000%	-	0.000%
7. Receivables for securities	-	0.000%	-	0.000%
8. Cash and short-term investments	119,012,000	1.409%	119,012,000	1.409%
9. Other invested assets	-	0.000%	-	0.000%
10. Total invested assets	<u>\$ 8,446,899,000</u>	<u>100.000%</u>	<u>\$ 8,446,889,000</u>	<u>100.000%</u>

See Report of Independent Auditors on Supplemental Financial Information.

Michigan Catastrophic Claims Association
Supplemental Investment Risks Interrogatories
June 30, 2005
(Prepared on a Statutory Basis of Accounting)

Answer the following interrogatories by stating the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments as shown on the Summary Investment Schedule. All reporting entities must answer interrogatories 1, 2, 3, 4, 11 and, if applicable 20 and 24. Answer each of the interrogatories 5 through 19 (except 11) only if the reporting entity's aggregate holding in the gross investment category addressed in that interrogatory equals or exceeds 2.5% of the reporting entity's total admitted assets. For Life, Health and Fraternal blanks, responses are to exclude Separate Accounts.

1. State the reporting entity's total admitted assets as reported on page two of the NAIC Annual Statement. \$8,485,968,000
2. State by investment category the 10 largest exposures to a single issuer/borrower/investment, excluding (i) U.S. government, U.S. government agency securities and those U.S. government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, (ii) property occupied by the company and (iii) policy loans.

	1	2	3
	Investment category	Amount	Percentage of Total Admitted Assets
2.01	Publicly Traded Equity Securities - Barclays Coreactive Bond Fund	\$2,628,103,000	31.0%
2.02	Publicly Traded Equity Securities - Vanguard Int. Index Fund	1,334,591,000	15.7%
2.03	Publicly Traded Equity Securities - Mondrian Intl Equity Fund	712,016,000	8.4%
2.04	Industrial & Miscellaneous - Benchmark Diversified	480,235,000	5.7%
2.05	Publicly Traded Equity Securities - Vanguard Midcap Index Fund	240,446,000	2.8%
2.06	Special Revenue Obligations - FNMA	53,518,000	0.6%
2.07	Special Revenue Obligations - FNMA Pool 735369	32,482,000	0.4%
2.08	Special Revenue Obligations - FHLMC Gold Pool E0-1172	21,572,000	0.3%
2.09	Special Revenue Obligations - FHLMC Gold Pool C9-0528	18,035,000	0.2%
2.10	Special Revenue Obligations - FHLMC Gold Pool G1-1623	16,916,000	0.2%

3. State the amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds	1	2	Preferred Stocks	1	2
3.01	NAIC - 1	\$ 2,668,957,000	31.5 %	3.07	P/PSF - 1	\$ - 0.0 %
3.02	NAIC - 2	220,258,000	2.6 %	3.08	P/PSF - 2	- 0.0 %
3.03	NAIC - 3	37,529,000	0.4 %	3.09	P/PSF - 3	- 0.0 %
3.04	NAIC - 4	11,538,000	0.1 %	3.10	P/PSF - 4	- 0.0 %
3.05	NAIC - 5	8,888,000	0.1 %	3.11	P/PSF - 5	- 0.0 %
3.06	NAIC - 6	1,730,000	0.0 %	3.12	P/PSF - 6	- 0.0 %

See Report of Independent Auditors on Supplemental Financial Information.

Michigan Catastrophic Claims Association
Supplemental Investment Risks Interrogatories
June 30, 2005
(Prepared on a Statutory Basis of Accounting)

4. State the amounts and percentages of the reporting entity's total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investments denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge accounting as specified in SSAP No. 31 – Derivative Instruments), including (i) foreign-currency-denominated investments of \$0 (ii) supporting insurance liabilities in that same foreign currency of \$0 and excluding (iii) Canadian investments and currency exposure of \$0:

Assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets, detail not required for interrogatories 5-10. Yes ☒ No ☐

5. Aggregate foreign investment exposure by NAIC sovereign rating.
6. Two largest foreign investment exposures to a single country, categorized by NAIC sovereign rating.
7. Aggregate unhedged foreign currency exposure.
8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating.
9. Two largest unhedged currency exposures to a single country, categorized by NAIC sovereign rating.
10. List the 10 largest sovereign (i.e. non-governmental) foreign issues.
11. State the amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency-denominated investments of \$0 supporting Canadian-denominated insurance liabilities of \$0.

Assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 12. Yes ☒ No ☐

12. Aggregate Canadian investment exposure.
13. State the amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days).

Assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 13. Yes ☒ No ☐

Michigan Catastrophic Claims Association
Supplemental Investment Risks Interrogatories
June 30, 2005
(Prepared on a Statutory Basis of Accounting)

14. State the amounts and percentages of admitted assets held in the largest 10 equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt or Class 1).

Assets held in equity interests less than 2.5% of the reporting entity's total admitted assets, detail not required Yes ☐ No ☒

	1	2	3
	Investment Category		
14.01	Publicly traded equity securities - Barclays Coreactive Bond Fund	\$ 2,628,103,000	34.8 %
14.02	Publicly traded equity securities - Vanguard Institutional Index Fund	1,334,591,000	17.6 %
14.03	Publicly traded equity securities - Mondrian International Equity Fund	712,016,000	9.4 %
14.04	Publicly traded equity securities - Vanguard Midcap Index Fund	240,446,000	3.2 %
14.05	Publicly traded equity securities - O'Reilly Automotive	9,161,000	0.0 %
14.06	Publicly traded equity securities - SFBC International Inc.	8,614,000	0.1 %
14.07	Publicly traded equity securities - Plains Expl & Prodn Co.	8,485,000	0.1 %
14.08	Publicly traded equity securities - Stewart Info Services Corp.	8,417,000	0.1 %
14.09	Publicly traded equity securities - Jos A. Bank Clothiers Inc.	8,157,000	0.1 %
14.10	Publicly traded equity securities - Zale Corp.	7,843,000	0.1 %

15. State the amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under (i) Securities and Exchange Commission (SEC) Rule 144a or (ii) SEC Rule 144 without volume restrictions.

Assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entities total admitted assets, detail not required. Yes ☒ No ☐

16. State the amounts and percentages of the reporting entity's total admitted assets held in general partnership interests (included in other equity securities).

Assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets, detail not required. Yes ☒ No ☐

17. With respects to mortgage loans reported in Schedule B, state the amounts and percentages of the reporting entities total admitted assets held.

Mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets, detail not required for interrogatories 17 and 18. Yes ☒ No ☐

18. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date.

See Report of Independent Auditors on Supplemental Financial Information.

Michigan Catastrophic Claims Association
Supplemental Investment Risks Interrogatories
June 30, 2005
(Prepared on a Statutory Basis of Accounting)

19. State the amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate reported in Schedule A, excluding property occupied by the company.

Assets held in each of the five largest investments in one parcel of real estate reported in Schedule A less than 2.5% of the reporting entity's total admitted assets, detail not required. Yes [X]
 No []

20. State the amount and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

		At End of Each Quarter (Unaudited)				
		At Year-End		1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
20.01	Securities lending (do not include assets held as collateral for such transactions)	\$ 820,947,000	9.7 %	\$ 760,602,000	\$ 783,961,000	\$ 814,201,000
20.02	Repurchase agreements					
20.03	Reverse repurchase agreements					
20.04	Dollar repurchase agreements					
20.05	Dollar reverse repurchase agreements					

21. State the amounts and percentages indicated below for warrants not attached to other financial instruments, options, caps, and floors:

		Owned		Written	
		1	2	3	4
21.01	Hedging	\$ -	0 %	\$ -	0 %
21.02	Income generation	-	0 %	-	0 %
21.03	Other	-	0 %	-	0 %

22. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for collars, swaps, and forwards:

		At End of Each Quarter				
		At Year-End		1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
22.01	Hedging	\$ -	0 %	\$ -	\$ -	-
22.02	Income generation	-	0 %	-	-	-
22.03	Replications	-	0 %	-	-	-
22.04	Other	-	0 %	-	-	-

See Report of Independent Auditors on Supplemental Financial Information.

Michigan Catastrophic Claims Association
Supplemental Investment Risks Interrogatories
June 30, 2005
(Prepared on a Statutory Basis of Accounting)

23. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for futures contracts:

		At Year-End		1st Qtr	At End of Each Quarter	2nd Qtr	3rd Qtr
		1	2	3	4	5	
23.01	Hedging	\$ -	0 %	\$ -	\$ -	\$ -	-
23.02	Income generation	-	0 %	-	-	-	-
23.03	Replications	-	0 %	-	-	-	-
23.04	Other	-	0 %	-	-	-	-

24. State the amounts and percentages of 10 largest investments included in the Write-ins for Invested Assets category included on the Summary Investment Schedule:

	1	2	3
24.01		\$ -	- %
24.02		-	- %
24.03		-	- %
24.04		-	- %
24.05		-	- %
24.06		-	- %
24.07		-	- %
24.08		-	- %
24.09		-	- %
24.10		-	- %

See Report of Independent Auditors on Supplemental Financial Information.